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Executive Summary

The effect of information on money-back guarantees on brand attribute perceptions and choices in competitive markets

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The adoption of new technologies in retailing, allowing for multichannel distribution, and the adoption of smartphones by consumers alongside the development of online trade applications resulted in a significant shift in the demand from stationary retailing to online channels. While expectations are that the change to multichannel retailing in general and in the apparel category in particular will increase retailers' profit, this is not the case overall. There is a lot of evidence that the shift in the demand for online shopping worsened the apparel industry's profit (Atmar et al. 2020) due to increased costs or higher returns by a simultaneous decrease of demand in offline stores, which was not compensated by higher online sales.

In their efforts to combat the increasing cost of returns, some retailers have reduced the quality of their money-back guarantees (most prominently in terms of the guarantee period). In contrast, others preferred deep price discounts (Bain 2020) to eliminate inventories and reduce their customers' financial risk. Money-back guarantees and low prices substitute each other in addressing risks of misfit, and when the price of the products is lower than a certain threshold, returning an unwanted product becomes unlikely. The long-term effect of these two managerial measures on the brand's profitability has yet to be analyzed.

To get more insight into the results of changes in retail policies, this study analyzes the effects of making differences between competitors' money-back or discount policies more salient for customers in the apparel business. An experimental study in Israel exposes subjects to comparative information on these two risk reduction marketing tools and monitors their brand attribute perceptions and choice processes. Based on this data, we can show that such information affects consumers' attribute perceptions and choice processes. Specifically, (i) exposure to comparative return information influences the perception of attributes such as brand quality; (ii) exposure to comparative price ranges influences the perception of attributes such as service quality; and (iii) both types of information only modestly affect brand choice. These results suggest that extending the money-back guarantee period is not very meaningful for a supplier, yet costly.

Our results recommend that deviation in money-back guarantee contracts from the norm − determined by legislators or the industry's average − does not substantially affect consumers' perceptions or demand. Thus, at least in the fashion industry, it might be more profitable to adjust the duration of the return contract to the industry's minimum standard rather than to offer deep price promotions. The empirical results have been established in the apparel business. However, the theoretical background is general and relevant to other markets. It applies to all product categories on which money-back guarantees are offered; for instance, computers, electronics, eyewear, furniture, house appliances, mattresses, even luxury products and some services (usually using different terminology for this managerial policy, i.e., satisfaction guarantees).